1999

Department of the Treasury
Internal Revenue Service

Instructions for Form 8853

Medical Savings Accounts and Long-Term Care Insurance Contracts

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

A Change To Note

Use new Section B to report distributions from a Medicare+Choice medical savings account (MSA).

Purpose of Form

Use Form 8853 to:

- Report information about MSAs (other than Medicare+Choice MSAs) established in 1999;
- Report MSA contributions;
- Figure your MSA deduction;
- Report distributions from MSAs or Medicare+Choice MSAs;
- Report taxable payments from long-term care (LTC) insurance contracts; or
- Report taxable accelerated death benefits from a life insurance policy.

Additional information. See **Pub. 969**, Medical Savings Accounts, for more details on MSAs.

Who Must File

You **MUST** file Form 8853 if any of the following apply.

- You (or your spouse, if married filing jointly) established a new MSA for 1999 (even if the contributions to the MSA were made by an employer).
- An employer or you (or your spouse, if married filing jointly) made contributions for 1999 to your MSA (or your spouse's MSA, if married filing jointly).
- You (or your spouse, if married filing jointly) received MSA or Medicare+Choice MSA distributions in 1999.
- You acquired an interest in an MSA or a Medicare+Choice MSA because of the death of the account holder. See **Death of Account Holder** on page 4 or 5 for details.
- You (or your spouse, if married filing jointly) were a policyholder who received payments under an LTC insurance contract, or received any accelerated death benefits from a life insurance policy, on a per diem or other periodic basis, in 1999. See the instructions for Section C, beginning on page 5.

Specific Instructions

Name and Social Security Number (SSN). Enter your name(s) and SSN as shown on your tax return. If married filing jointly and both you and your spouse each have an MSA or each have a Medicare+Choice MSA, enter the SSN shown first on your tax return.

Section A—Medical Savings Accounts (MSAs)

Eligible Individual

To be eligible for an MSA, you must be an employee of a small employer or be self-employed. You must also have a high deductible health plan (HDHP), and have no other health insurance coverage except permitted coverage. You must be an eligible individual on the first day of a month to take an MSA deduction for that month.

Small Employer

A small employer is generally an employer who had an average of 50 or fewer employees during either of the last 2 calendar years. See Pub. 969 for details.

Medical Savings Account

An MSA is an account set up exclusively for paying the qualified medical expenses of the account holder or the account holder's spouse or dependent(s) in conjunction with an HDHP.

Qualified Medical Expenses

Generally, qualified medical expenses for MSA purposes are unreimbursed medical expenses that could otherwise be deducted on Schedule A (Form 1040). See the Schedule A (Form 1040) instructions and **Pub. 502,** Medical and Dental Expenses. However, you **cannot** treat insurance premiums as qualified medical expenses, **unless** the premiums are for:

- Long-term care (LTC) insurance,
- Health care continuation coverage, or
- Health care coverage while receiving unemployment compensation under Federal or state law.

High Deductible Health Plan (HDHP)

An HDHP is a health plan that meets the following requirements:

	Self-only coverage	Family coverage
Minimum annual deductible	$1,550	$3,050
Maximum annual deductible	$2,300	$4,600
Maximum annual out-of-pocket expenses	$3,050	$5,600

Other Health Insurance

If you have an MSA, you (and your spouse, if you have family coverage) may not have any other health insurance coverage (other than an HDHP).

Exception. You may have additional insurance that provides benefits only for:

1. Accidents,
2. Disability,
3. Dental care,
4. Vision care,
5. Long-term care,
6. Liabilities under workers' compensation laws, tort liabilities, or liabilities arising from the ownership or use of property,
7. A specific disease or illness, or
8. A fixed amount per day (or other period) of hospitalization.

Disabled

An individual is generally considered disabled if he or she is unable to engage in any substantial gainful activity due to a physical or mental impairment which can be expected to result in death or to continue indefinitely.

Part I—General Information

Complete this part if you (or your spouse, if married filing jointly) established a new MSA for 1999, even if the contributions to the MSA were made by an employer.

Lines 1a and 2a

Check “Yes” if you or your spouse established a new MSA for 1999, including an MSA established for 1999 from January 1, 2000, through April 17, 2000.

Lines 1b and 2b

Previously Uninsured Account Holder

If an account holder has **self-only coverage** under an HDHP and did not have any health plan coverage at any time during the 6-month period before coverage under the HDHP began, the account holder is considered previously uninsured. In addition, for the account holder to be considered previously uninsured, the HDHP coverage must not have begun before July 1, 1996.

If an account holder has **family coverage** under an HDHP and neither the account holder nor the account holder's spouse had any health plan coverage at any time during the 6-month period before coverage under the HDHP began, the account holder is considered previously uninsured. In addition, for the account holder to be considered previously uninsured, the HDHP coverage must not have begun before July 1, 1996.

In determining whether an account holder is previously uninsured, disregard any health insurance that is permitted in addition to the HDHP. See **Other Health Insurance** on page 1.

Line 1c

If you were covered by an HDHP with self-only coverage and an HDHP with family coverage, indicate which plan was in effect longer during the year.

Line 2c

If you are filing a joint return and your spouse was covered by an HDHP with self-only coverage and an HDHP with family coverage, indicate which plan was in effect longer during the year.

Part II—MSA Contributions and Deductions

Use Part II to figure:

1. Your MSA deduction (and, if applicable, any excess contributions you made); and

2. Any excess contributions made by an employer. See **Excess Employer Contributions** on page 3.

Figuring Your MSA Deduction

The amount you can deduct for MSA contributions is limited by:

1. The applicable portion of the policy's annual deductible (line 5), and

2. Your compensation from the employer maintaining the HDHP (line 6).

However, employer contributions to an MSA may prevent you from making deductible contributions. In addition, if you or your spouse made contributions in addition to any employer contributions, you may have to pay an additional tax (see **Excess Contributions You Make** on page 3 for details).

Employer Contributions to an MSA

The following rules apply for employer contributions.

1. If an employer made contributions to your MSA, you are not entitled to a deduction.

2. If you and your spouse are covered under an HDHP with family coverage, employer contributions to either of your MSAs prevent either spouse from making deductible contributions to an MSA.

3. If you and your spouse each have MSAs with self-only coverage and one of you received employer contributions to his or her MSA, the other is allowed to make deductible contributions to an MSA.

The following examples illustrate these rules:

Example 1. Your employer maintains an HDHP with family coverage. Your employer does not contribute to your MSA. However, your spouse (who is covered under the HDHP maintained by your employer) has an employer that contributes to his or her MSA. You are not allowed to deduct contributions to your MSA because of the employer contribution to your spouse's MSA.

Example 2. Your employer maintains an HDHP with self-only coverage. Your spouse's employer maintains an HDHP with self-only coverage. Your employer contributes to your MSA. No employer contributions are made to your spouse's MSA. Your spouse may deduct contributions to his or her MSA.

How To Complete Part II

Complete lines 3a through 7 as instructed on the form unless one of the following applies.

1. If employer contributions to an MSA prevent you from taking a deduction for amounts you contributed to your MSA, complete Part II as follows:

a. Complete lines 3a through 4.

b. Skip lines 5 and 6.

c. Enter -0- on line 7.

d. If line 4 is more than zero, see **Excess Contributions You Make** and **Excess Employer Contributions** on page 3.

2. If you and your spouse have more than one MSA, complete lines 3a through 7 as follows:

- If either spouse has an HDHP with family coverage, complete lines 3a through 7 using the **Family Coverage** rules in the instructions for line 5.
- If both spouses have HDHPs with self-only coverage, check the box in the heading for Part II. Complete a separate Form 8853, Section A, Part II, for each spouse. Write “statement” across the top, fill in the name and SSN and complete Part II. Then, add the totals for lines 3b, 4, and 7 from the two separate statement Forms 8853 and enter those totals on the respective lines of the controlling Form 8853 (the combined Form 8853 for both spouses). Do not complete lines 3a, 5, and 6 of the controlling Form 8853. Attach the two statement Forms 8853 to the controlling Form 8853.

Lines 3a and 3b

Employer Contributions

Employer contributions include any amount an employer contributes to any MSA for you or your spouse for 1999. These contributions should be shown in box 13 of Form W-2 with code R. See **Excess Employer Contributions** on page 3 for details.

Line 4

Do not include amounts rolled over from another MSA. See **Rollovers** on page 4.

Line 5

Use the worksheet on page 3 to figure your limitation.

Instructions for Line 5 Limitation Worksheet

Go through the chart for each month of 1999. Enter the result on the corresponding line next to the month on the worksheet.

TIP *If your eligibility and coverage did not change from one month to the next, enter the same number you entered for the previous month.*

More than one HDHP. If you (and your spouse, if married filing jointly) had more than one HDHP on the first of the month and one of the plans has family coverage, use the **Family Coverage** rules below and disregard any plans with self-only coverage.

Self-Only Coverage. Enter the annual deductible, which must be at least $1,550 but not more than $2,300. Enter 65% (.65) of the annual deductible on the worksheet.

Family Coverage. Enter the annual deductible, which must be at least $3,050 but not more than $4,600. Enter 75% (.75) of the annual deductible on the worksheet. If married filing separately, enter only 37.5% (.375) of the annual deductible on the worksheet. However, if you and your spouse agree to divide the 75% of the annual deductible in a different manner, enter your share on the worksheet.

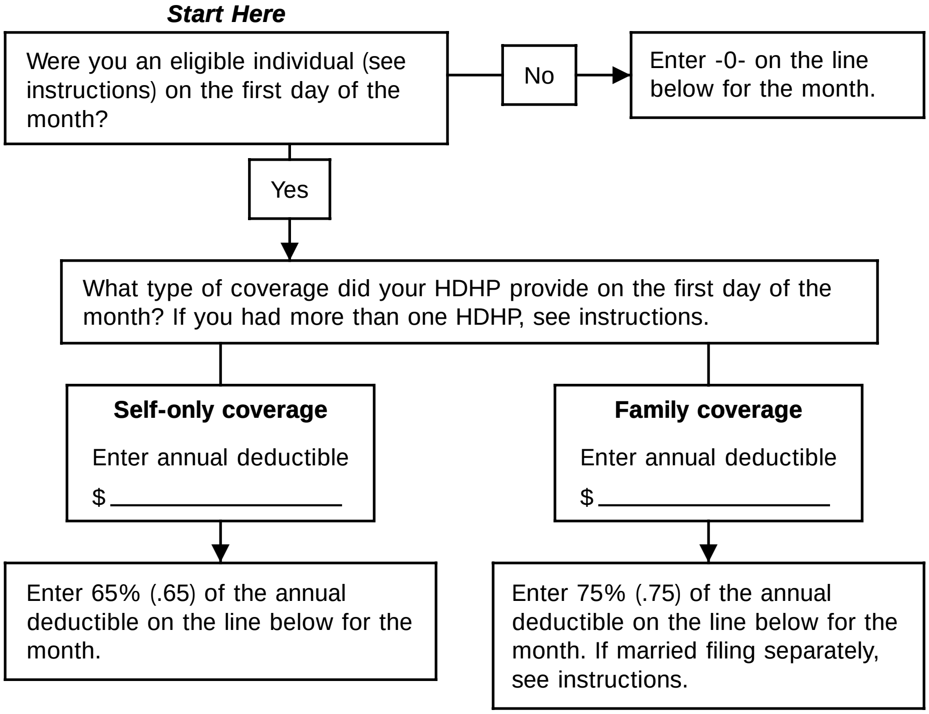
Line 6

Compensation

Compensation includes wages, salaries, professional fees, and other pay you receive for services you perform. It also includes sales commissions, commissions

Line 5 Limitation Worksheet

Go through this chart for each month of 1999.
See the instructions for line 5.
(Keep for your records)



Month in 1999	Amount from chart above
January	
February	
March	
April	
May	
June	
July	
August	
September	
October	
November	
December	
Total for all months	
Limitation. Divide the total by 12. Enter here and on line 5	

on insurance premiums, pay based on a percentage of profit, tips, and bonuses. Generally, these amounts are included on the Form(s) W-2 you receive from your employer(s). Compensation also includes net earnings from self-employment, but only for a trade or business in which your personal services are a material income-producing factor. Generally, this amount is shown on the Schedule SE (Form 1040) you complete for your business or farm.

Compensation does not include any amounts received as a pension or annuity and does not include any amount received as deferred compensation.

Line 7

If you (or your employer) contributed more to your MSA than is allowable, you may have to pay a tax on excess contributions. Figure your excess contributions using the instructions below. See **Form 5329,** Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs, to figure the additional tax.

Excess Contributions You Make

To figure your excess contributions, subtract your deductible contributions limit (line 7) from your actual contributions (line 4). Do not include rollovers.

However, you can withdraw some or all of your excess contributions for 1999 and they will not be taxed as an excess contribution if:

- You make the withdrawal by the due date, including extensions, of your 1999 tax return,
- You do not claim a deduction for the amount of the withdrawn contribution, and
- You also withdraw any income earned on the withdrawn contributions and include the earnings as “other income” on your tax return for the year you withdraw the contributions and earnings.

Excess Employer Contributions

For each employer, figure the excess employer contributions as the excess, if any, of the employer's contributions over the **smaller** of **(a)** your limitation on line 5 or **(b)** your compensation from the employer. If the excess was not included in income on Form W-2, you must report it as “other income” on your tax return.

However, you can withdraw some or all of the excess employer contributions for 1999 and they will not be taxed as an excess contribution if:

- You make the withdrawal by the due date, including extensions, of your 1999 tax return,
- You do not claim an exclusion from income for the amount of the withdrawn contribution, and

• You also withdraw any income earned on the withdrawn contributions and include the earnings as “other income” on your tax return for the year in which you withdraw the contributions and earnings.

Part III—MSA Distributions

Line 8a

Enter the total MSA distributions you and your spouse received in 1999 from all MSAs. These amounts should be shown in box 1 of Form 1099-MSA.

Line 8b

Enter any excess contributions (and the earnings on those excess contributions) included on line 8a that were withdrawn by the due date, including extensions, of your return. See the instructions for line 7 on page 3.

If any distributions you received in 1999 were rolled over, include that amount on line 8b.

Rollovers

A rollover is a tax-free distribution (withdrawal) of assets from one MSA that is reinvested in another. Generally, you must complete the rollover within 60 days following the distribution. See **Pub. 590,** Individual Retirement Arrangements (IRAs), for more details and additional requirements regarding rollovers.

Note: *If you instruct the trustee of your MSA to transfer funds directly to another MSA, the transfer is **not** considered a rollover. **Do not** include the amount transferred in income, deduct it as a contribution, or include it as a distribution on line 8a.*

Line 9

In general, include on line 9 distributions from all MSAs in 1999 that were used for the qualified medical expenses (see page 1) of the account holder and his or her spouse or dependents. However, if a contribution was made to an MSA in 1999 (by you or your employer), do not include on line 9 withdrawals from an MSA if the individual for whom the expenses were incurred was not covered by an HDHP or was covered by a plan that was not an HDHP (other than the exceptions noted on page 1) at the time the expenses were incurred.

Example. In 1999, you were covered by an HDHP with self-only coverage and your spouse was covered by a health plan that was not an HDHP. You made contributions to an MSA for 1999. You cannot include on line 9 withdrawals made from the MSA to pay your spouse's medical expenses incurred in 1999 because your spouse was covered by a plan that was not an HDHP.

CAUTION *You may not take a deduction on Schedule A (Form 1040) for any amount you include on line 9.*

Lines 11a and 11b

Check the box on line 11a if the account holder who received the distribution from an MSA in 1999 met any of the exceptions to the 15% tax. Enter on line 11b 15% (.15) of the portion, if any, of line 10 to which the exception to the 15% tax does not apply.

Exceptions to the 15% Tax

The 15% tax does not apply if the distribution is made after the account holder—

- Dies,
- Becomes disabled (see page 1), or
- Turns age 65.

Example 1. You turned age 66 during the year and had no MSA during the year. Your wife turned age 63 during the year and received a taxable distribution from her MSA. You do NOT check the box on line 11a in this case because your spouse (the account holder) did not meet the age exception.

Example 2. Both you and your spouse received taxable distributions from your MSAs in 1999. You were age 65 at the time you received your distributions and your spouse was age 63 when he or she received the distributions. Check the box on line 11a because you met an exception to the 15% tax. However, the 15% tax still applies to your spouse's distributions.

Example 3. You turned age 65 during the year. You received taxable distributions both before and after you turned age 65. Check the box on line 11a because you met an exception to the 15% tax. However, the 15% tax still applies to the distributions you received before you turned age 65.

Death of Account Holder

If the account holder's surviving spouse is the designated beneficiary, the MSA is treated as if the surviving spouse were the account holder. The surviving spouse completes Form 8853 as though the MSA belonged to him or her.

In all other cases, the account ceases to be an MSA as of the date of death. If you are the beneficiary, complete Form 8853 as follows:

1. Write “Death of MSA account holder” across the top of Form 8853.

2. Write the name(s) shown on your tax return and your SSN in the spaces provided at the top of the form and skip Parts I and II.

3. On line 8a, enter the fair market value of the MSA as of the date of death.

4. On line 9, enter qualified medical expenses incurred by the account holder before the date of death that you paid within 1 year after the date of death.

5. Complete the rest of Part III. The distribution is not subject to the 15% tax.

Report any earnings on the account after the date of death as income on your tax return.

Deemed Distributions From MSAs

The following situations result in deemed distributions from your MSA.

1. You or any of your beneficiaries engaged in any transaction prohibited by section 4975 with respect to any of your MSAs, at any time in 1999. Your account ceases to be an MSA as of January 1, 1999, and you must include the fair market value of all assets in the account as of January 1, 1999, on line 8a.

2. You used any portion of any of your MSAs as security for a loan at any time in 1999. You must include the fair market value of the assets used as security for the loan as income on Form 1040, line 21.

Section B—Medicare+Choice MSA Distributions

Complete Section B if you (or your spouse, if married filing jointly) received distributions from a Medicare+Choice MSA in 1999. If both you and your spouse received distributions, complete a separate Form 8853, Section B, for each spouse. Write “Statement” across the top of each Form 8853, fill in the name and SSN, and complete Section B. Then, add lines 12, 13, 14, and 15b from the two statement Forms 8853 and enter the totals for each line on the controlling Form 8853 (the combined Form 8853 for both spouses). If either spouse checked the box on line 15a of the statement Form 8853, check the box on the controlling Form 8853. Attach the statements and the controlling Form 8853 to your tax return.

Medicare+Choice MSA

A Medicare+Choice MSA is an MSA designated as a Medicare+Choice MSA to be used solely to pay the qualified medical expenses of the account holder. To be eligible for a Medicare+Choice MSA, you must be eligible for Medicare and have a high deductible health plan that meets the Medicare guidelines. Contributions to the account can only be made by Medicare. The contributions and any earnings, while in the account, are not taxable to the account holder. A distribution used exclusively to pay for the qualified medical expenses of the account holder is not taxable. Distributions shown on line 12 that are not used for qualified medical expenses of the account holder are taxable and may also be subject to a penalty.

Death of Account Holder

If the designated beneficiary is the account holder's surviving spouse, the Medicare+Choice MSA is treated as a regular MSA (not a Medicare+Choice MSA) of the surviving spouse for distribution purposes. The surviving spouse must report any distributions after the date of death in Section A, Part III, not in Section B. Include on line 9 qualified medical expenses incurred by the account holder before the date of death and paid by the surviving spouse within 1 year after the date of death.

If the designated beneficiary is not the account holder's surviving spouse, the account ceases to be an MSA as of the date of death. If you are the beneficiary, complete Form 8853 as follows:

1. Write "Death of Medicare+Choice MSA account holder" across the top of Form 8853.

2. Write the name(s) shown on your tax return and your SSN in the spaces provided at the top of the form. Skip Parts I and II.

3. On line 12, enter the fair market value of the Medicare+Choice MSA as of the date of death.

4. On line 13, enter qualified medical expenses incurred by the account holder before the date of death that you paid within 1 year after the date of death.

5. Complete line 14.

The distribution is not subject to the 50% tax. Report any earnings on the account after the date of death as income on your tax return.

Line 12

Enter the total of all your Medicare+Choice MSA distributions received in 1999. These amounts should be shown in box 1 of Form 1099-MSA. This amount should not include any erroneous contributions made by Medicare (or any earnings on the erroneous contributions) or any amounts from a trustee-to-trustee transfer from one MSA to another MSA of the same account holder.

Line 13

Enter the distributions received in 1999 from Medicare+Choice MSA(s) that were used for your qualified medical expenses.

CAUTION *You may not take a deduction on Schedule A (Form 1040) for any amount you include on line 13.*

Lines 15a and 15b—Exceptions to the 50% Tax

Check the box on line 15a if the account holder became disabled (see page 1) or died before the date of any distribution included on line 14. Enter on line 15b 50% (.5) of the distributions on line 14 that do not meet either of these exceptions.

Section C—Long-Term Care (LTC) Insurance Contracts

See **Filing Requirements for Section C** on page 6.

Definitions

Policyholder

The policyholder is the person who owns the proceeds of the LTC insurance contract, life insurance contract, or viatical settlement. The policyholder may be the insured individual. This person is required to report the income, regardless of whether the payment is assigned to a third party or parties. In the case of a group contract, the certificate holder is considered to be the policyholder.

LTC Insurance Contract

In general, amounts paid under a **qualified** LTC insurance contract are excluded from your income. However, if you receive per diem payments (see below), the amount you may exclude is limited.

A contract issued after December 31, 1996, is a qualified LTC insurance contract if it meets the requirements of section 7702B, including the requirement that the insured must be a chronically ill individual (see below). A contract issued before January 1, 1997, generally is treated as a qualified LTC insurance contract if it met state law requirements for LTC insurance contracts and it has not been materially changed.

Per Diem Payments

Per diem payments are payments of a fixed amount made on a periodic basis without regard to actual expenses incurred. Box 3 of Form 1099-LTC should indicate whether the payments were per diem payments.

Chronically Ill Individual

A chronically ill individual is someone who has been certified (at least annually) by a licensed health care practitioner as—

1. Being unable to perform at least two activities of daily living (ADLs) (eating, toileting, transferring, bathing, dressing, and continence), without substantial assistance from another individual, for at least 90 days, due to a loss of functional capacity; or

2. Requiring substantial supervision to protect the individual from threats to health and safety due to severe cognitive impairment.

Accelerated Death Benefits

Generally, amounts paid as accelerated death benefits under a life insurance contract or under certain viatical settlements are fully excludable from your gross income if the insured is a terminally ill individual (see below). Generally, accelerated death benefits paid with respect to an insured individual who is chronically ill (see above) are excludable from your gross income to the same extent as they would be under a qualified LTC insurance contract.

Line 17

Special rules apply in determining the taxable payments if other individuals received per diem payments under a qualified LTC insurance contract or as accelerated death benefits with respect to the insured listed on line 16a. See **Multiple Payees** on page 7 for details.

Line 18

Terminally Ill Individual

A terminally ill individual is any individual who has been certified by a physician as having an illness or physical condition that can reasonably be expected to result in death within 24 months.

Line 20

CAUTION *If you have more than one LTC period, you must separately calculate the taxable amount of the payments received during each LTC period. To do this, complete lines 20 through 28 on separate sections C for each LTC period. Enter the total on line 28 from each separate Section C on the Form 8853 that you attach to your tax return. See the instructions for line 23 for the LTC period.*

Line 21

Enter the total accelerated death benefits you received with respect to the insured listed on line 16a. These amounts should be shown in box 2 of Form 1099-LTC. Only include amounts you received while the insured was a chronically ill individual. **Do not** include amounts you received while the insured was a terminally ill individual. If the insured was redesignated from chronically ill to terminally ill in 1999, only include on line 21 payments received **before** the insured was certified as terminally ill.

Line 23

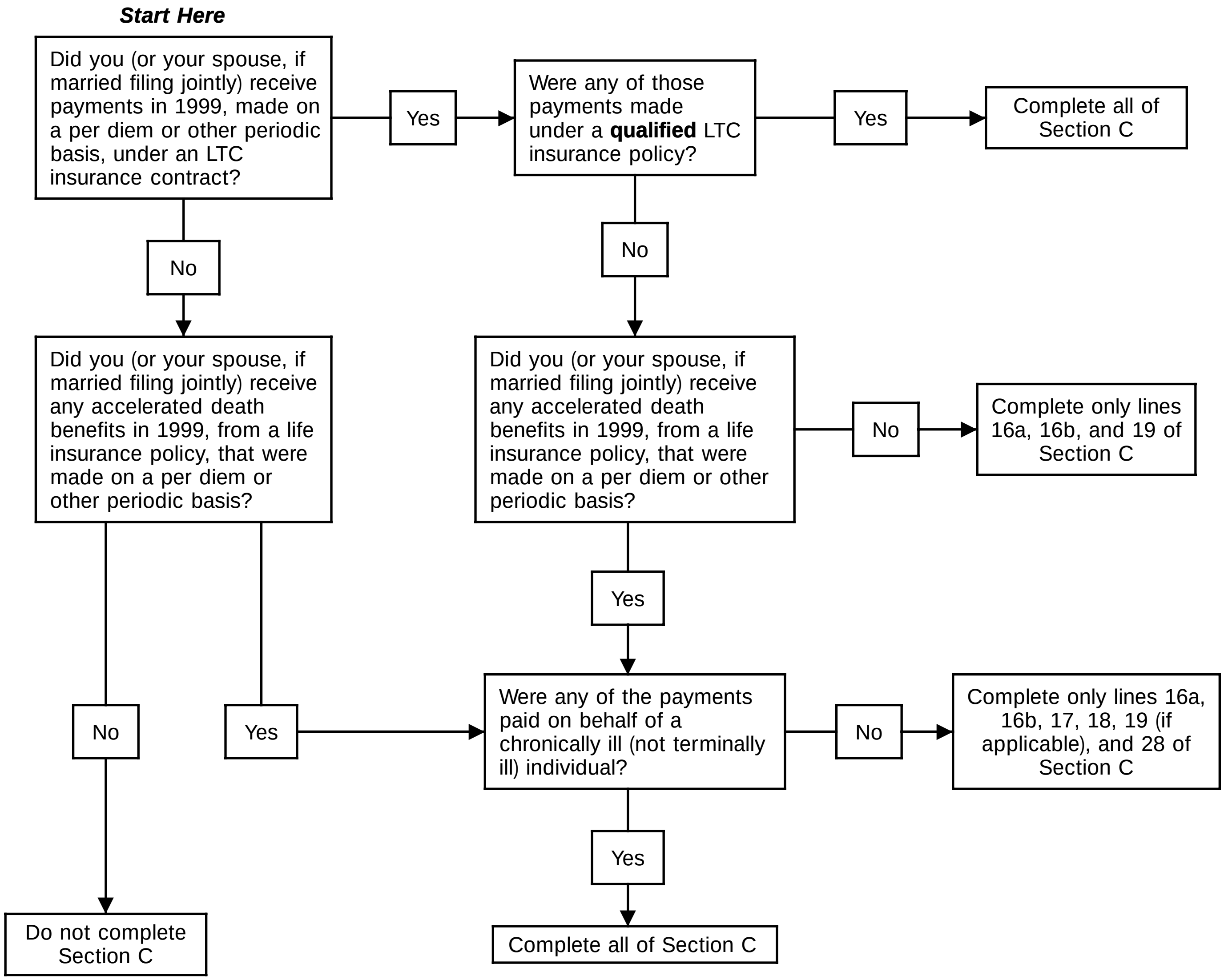
The number of days in your LTC period depends on which method you choose to define the LTC period. Generally, you may choose either the **Contract Period** method or the **Equal Payment Rate** method. However, special rules apply if other persons also received per diem payments in 1999 under a qualified LTC insurance contract or as accelerated death benefits with respect to the insured listed on line 16a. See **Multiple Payees** on page 7 for details.

Method 1—Contract Period

Under this method your LTC period is the same period as that used by the

Filing Requirements for Section C

Go through this chart for each insured person for whom you received long-term care (LTC) payments.



insurance company under the contract to compute the benefits it pays you. For example, if the insurance company computes your benefits on a daily basis, your LTC period is 1 day.

CAUTION *If you choose this method for defining the LTC period(s) and different LTC insurance contracts for the same insured use different contract periods, then all such LTC contracts must be treated as computing benefits on a daily basis.*

Method 2—Equal Payment Rate

Under this method, your LTC period is the period during which the insurance company uses the same payment rate to compute your benefits. For example, you would have two LTC periods if the insurance contract computes payments at a rate of $175 per day from February 1, 1999, through May 31, 1999, and then at a rate of $195 per day from June 1, 1999, through December 31, 1999. The first LTC period is 120 days (from February 1 through May 31) and the second LTC period is 214 days (from June 1 through December 31).

You may choose this method even if you have more than one qualified LTC insurance contract covering the same period. For example, you have one insurance contract that pays $100 per day from March 1, 1999, through December 31, 1999, and you have a second insurance contract that pays $1,500 per month from March 1, 1999, through December 31, 1999. You have one LTC period because each payment rate does not vary during the LTC period of March 1 through December 31. However, you would have two LTC periods if the facts were the same except that the second insurance contract did not begin making payments until May 1, 1999. The first LTC period is 61 days (from March 1 through April 30) and the second LTC period is 245 days (from May 1 through December 31).

Line 24

Qualified LTC services are necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative services, and maintenance or personal care services, required to treat a chronically ill individual (see page 5) under a plan of care prescribed by a licensed health care practitioner.

Line 26

Enter the reimbursements you received or **expect to receive** through insurance or otherwise for qualified LTC services provided for the insured for LTC periods in 1999. Box 3 of Form 1099-LTC should indicate whether the payments were made on a reimbursement basis.

Do not include on line 26 any reimbursements for qualified LTC services you received under a contract issued before August 1, 1996. However, you must include reimbursements if the contract was exchanged or modified after July 31, 1996, to increase per diem payments or reimbursements.

Multiple Payees

If you checked “Yes” on lines 17 and 18 and the **only** payments you received were accelerated death benefits that were paid because the insured was terminally ill, skip lines 19 through 27 and enter zero on line 28.

In all other cases in which you checked “Yes” on line 17, attach a statement duplicating lines 20 through 28 of the form. This attachment should show the **aggregate computation** for **all** persons who received per diem payments under a qualified LTC insurance contract or as accelerated death benefits because the insured was chronically ill. Each person must use the same LTC period. If all the recipients of payments cannot agree on which LTC period to use, the Contract Period method must be used.

After completing the attachment, determine your share of the per diem limitation and any taxable payments. The per diem limitation is allocated first to the insured to the extent of the total payments the insured received. If the insured is married and files a joint return and the insured's spouse is one of the policyholders, the per diem limitation is allocated first to them to the extent of the payments they both received. Any remaining limitation is allocated among the other policyholders pro rata based on the payments they received in 1999.

Enter your share of the per diem limitation and the taxable payments on lines 27 and 28. **Leave lines 23 through 26 blank.**

Example 1

Elsie was chronically ill throughout 1999 and received 12 monthly payments on a per diem basis from a qualified LTC insurance contract. She was paid $2,000 per month ($24,000 total). Elsie incurred expenses for qualified LTC services of $100 per day ($36,500). She was reimbursed for one-half of those expenses ($18,250). Elsie uses the equal payment rate method and therefore has a single benefit period for 1999 (January 1–December 31). Elsie completes lines 22 through 28 of Form 8853 as follows:

Line	Amount
22	$24,000 ($2,000 x 12 mos.)
23	$69,350 ($190 x 365 days)
24	$36,500 ($100 x 365 days)
25	$69,350
26	$18,250 ($50 x 365 days)
27	$51,100
28	$-0-

Example 2

The facts are the same as in Example 1, except Elsie's son, Sam, and daughter, Deborah, each also own a qualified LTC insurance contract under which Elsie is the insured. Neither Sam nor Deborah incurred any costs for qualified LTC services for Elsie in 1999. From July 1, 1999, through December 31, 1999, Sam received per diem payments of $2,700 per month ($16,200 total) and Deborah received per diem payments of $1,800 per month ($10,800 total). Elsie, Sam, and Deborah agree to use the equal payment rate method to determine their LTC periods.

There are two LTC periods. The first is 181 days (from January 1 through June 30) during which the per diem payments were $2,000 per month. The second is 184 days (from July 1 through December 31) during which the aggregate per diem payments were $6,500 per month ($2,000 under Elsie's contract + $2,700 under Sam's contract + $1,800 under Deborah's contract).

An aggregate statement must be completed for the second LTC period and attached to Elsie, Sam, and Deborah's forms.

Step 1. They complete a statement for Elsie for the first LTC period as follows:

Line	Amount
22	$12,000 ($2,000 x 6 mos.)
23	$34,390 ($190 x 181 days)
24	$18,100 ($100 x 181 days)
25	$34,390
26	$9,050 ($50 x 181 days)
27	$25,340
28	$ -0-

Step 2. They complete the aggregate statement for the second LTC period as follows:

Line	Amount
22	$39,000 ($6,500 x 6 mos.)
23	$34,960 ($190 x 184 days)
24	$18,400 ($100 x 184 days)
25	$34,960
26	$9,200 ($50 x 184 days)
27	$25,760
28	$13,240

Step 3. They allocate the aggregate per diem limitation of $25,760 on line 27 among Elsie, Sam, and Deborah. Because Elsie is the insured, the per diem limitation is allocated first to her to the extent of the per diem payments she received during the second LTC period ($12,000). The remaining per diem limitation of $13,760 is allocated between Sam and Deborah.

Allocation ratio to Sam: Sam receives 60% of the remaining limitation because the $16,200 he received during the second LTC period is 60% of the $27,000 received by both Sam and Deborah during the second LTC period.

Allocation ratio to Deborah: Deborah receives 40% of the remaining limitation because the $10,800 she received during the second LTC period is 40% of the $27,000 received by both Sam and Deborah during the second LTC period.

Step 4. Elsie, Sam, and Deborah each complete Form 8853 as follows.

Elsie's Form 8853:

Line	1st LTC Period	2nd LTC Period	Form 8853
22	$12,000	$12,000	$24,000
27	$25,340	$12,000	$37,340
28	$ 0	$ 0	$ 0

Sam's Form 8853:

Line	1st LTC Period	2nd LTC Period	Form 8853
22	$ 0	$16,200	$16,200
27	$ 0	$8,256	$8,256
28	$ 0	$7,944	$7,944

Deborah's Form 8853:

Line	1st LTC Period	2nd LTC Period	Form 8853
22	$ 0	$10,800	$10,800
27	$ 0	$5,504	$5,504
28	$ 0	$5,296	$5,296

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping .... 1 hr., 19 min.

Learning about the law or the form .... 34 min.

Preparing the form .... 1 hr., 30 min.

Copying, assembling, and sending the form to the IRS .... 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send the form to this address. Instead, see **Where Do You File?** in the Form 1040 instructions.